

GENERAL FUND REVENUE ESTIMATES

Overview

For 2007-2008, General Fund revenue estimates (excluding fund balance) total approximately \$799.9 million, representing a 5.3% increase from the 2006-2007 Adopted Budget level. General Fund resources, including Fund Balance-Carryover, total just over \$1.0 billion, which is 7.6% above the prior year level.

Initial estimates for the 2007-2008 beginning fund balance and for over 500 separate General Fund revenue accounts were formulated initially in a November Forecast, and updated as part of the 2008-2012 Five-Year Forecast released in February 2007. These estimates were reviewed continually after the Forecast document was released and were revised again, as appropriate, in this Adopted Budget based on updated information.

Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in 2006-2007 based on year-to-date activity; and an estimate for the increase or decrease in activity and receipts anticipated for the coming fiscal year (2007-2008). Each source of revenue is influenced by different factors, which are both external (outside of the City's control) and internal.

General Fund revenue estimates utilized in the 2007-2008 Adopted Budget are summarized below and discussed in detail in the material that follows.

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Revenue Category	1 2005-2006 Actuals	2 2006-2007 Adopted	3 2007-2008 Forecast	4 2007-2008 Adopted	2 to 4 % Change	% of Total
Property Tax	166,559,696	183,914,000	198,654,000	198,154,000	7.7%	19.7%
Sales Tax	140,327,107	144,008,000	152,236,000	152,636,000	6.0%	15.2%
Transient Occupancy Tax	7,688,090	7,600,000	8,988,000	8,988,000	18.3%	0.9%
Franchise Fees	36,759,856	36,904,000	39,032,000	39,032,000	5.8%	3.9%
Utility Taxes	75,488,559	76,098,000	79,441,000	79,141,000	4.0%	7.9%
Licenses and Permits	75,856,866	74,660,399	77,360,320	79,719,404	6.8%	7.9%
Fines and Forfeitures	14,497,307	12,536,567	13,590,600	14,707,600	17.3%	1.5%
Rev. from Money and Property	11,553,296	10,541,869	13,909,080	13,909,080	31.9%	1.4%
Rev. from Local Agencies	43,013,583	45,422,621	46,846,131	47,243,063	4.0%	4.7%
Rev. from State Government	11,570,554	10,274,423	9,945,309	10,429,201	1.5%	1.0%
Rev. from Federal Government	6,263,332	16,469,051	-	6,142,948	(62.7%)	0.6%
Departmental Charges	28,060,683	29,455,625	28,732,050	30,714,618	4.3%	3.1%
Other Revenue	43,642,445	15,522,457	15,748,002	18,527,194	19.4%	1.8%
Transfers and Reimbursements	101,880,088	96,008,271	92,586,228	100,604,767	4.8%	10.0%
Subtotal	763,161,462	759,415,283	777,068,720	799,948,875	5.3%	79.6%
Fund Balance-Carryover*	166,071,585	174,896,871	51,000,000	205,468,471	17.5%	20.4%
Total General Fund Sources	929,233,047	934,312,154	828,068,720	1,005,417,346	7.6%	100.0%

* The Fund Balance figure does not include the Reserve for Encumbrances.

GENERAL FUND REVENUE ESTIMATES

Overview (Cont'd.)

Economic Performance

As is the case every year, the most significant challenge the Administration faces in formulating a budget for the coming year is projecting the condition of the local economy and the associated revenue collections. For the 2007-2008 Adopted Budget, the revenue estimates have been built on the assumption of continued modest economic growth at the national, State, and local levels, with some negative impacts associated with the slowdown in the housing market. A brief discussion of the economic outlook in those areas is included below.

National/California Outlook

Based on several economic forecasts, the U.S. economy is expected to continue to grow but at a slower rate in 2007, primarily as a result of impacts of the housing market slowdown. For 2007, the Anderson School of Management at UCLA predicts that economic growth will be lower than the average of what has occurred for the last several years. The primary reason for the slowing will be the ongoing effect of a declining housing market. The 2006 edition of the *California Economic Growth* issued by the Center For Continuing Study of the California Economy also echoes this prediction: "Economic growth in 2007 should be slower than in 2006. A housing slowdown has begun and should continue into next year. This will restrain job growth and consumer spending."

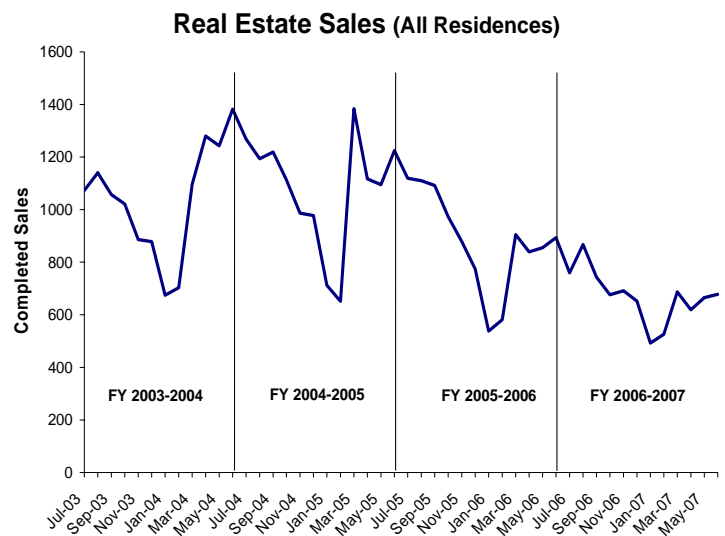
In support of this prediction, recent financial reports by the country's largest corporations are showing a significant slowdown in profit growth. As profits fall, employment declines are not usually far behind. Interest rates are also inching upward as the result of inflation fears and a falling dollar. Rising interest rates have historically made it more difficult for

people to buy cars and other big-ticket items as well as held down housing growth.

Despite these problems, however, current unemployment rates remain relatively low for the nation, State, and region. In addition, high tech, aerospace, defense, and agriculture, all important sectors of the economy, continue to experience slight gains.

City of San José Outlook

Consistent with the national outlook, the slowdown in the housing market is expected to impact this region. For San José, the slowing housing market can be expected to negatively impact a number of the City's revenue sources, including Property Taxes and Construction and Conveyance Taxes. The slowdown in this area will likely also indirectly impact Sales Tax collections with the downward spending in construction materials and the reduction of consumer spending as the "wealth effect" associated with housing appreciation diminishes. As shown in the chart below, the number of housing sales has dropped significantly in the last year.



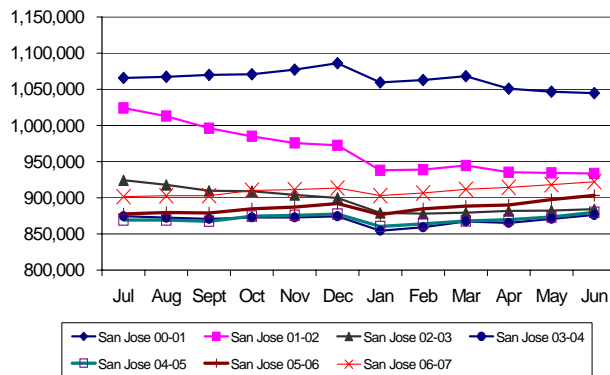
GENERAL FUND REVENUE ESTIMATES

Overview (Cont'd.)

Economic Performance (Cont'd.)

While the housing market continues to present challenges, employment in the area had stabilized and shown slight gains at the time of the adoption of this budget.

**San José Metropolitan Statistical Area
(Santa Clara County)
Employment: Total Jobs Comparison**



As reported in the San José Mercury News on March 24, 2007, the job growth in the last year included the addition of 6,100 jobs in the professional and business services sectors, continuing a two-year trend of year-over-year job gains. That expansion “is the most exciting and positive part of the news,” said Stephen Levy, director of the Palo Alto-based Center For Continuing Study of the California Economy. “Professional services are where the job growth in the high-tech sector had been for a long time. It was a beginning sign that the high-tech sector overall and the venture capital sector overall was recovering.”

While the job growth news is positive, it should be noted that through June 2007 the number of jobs in this region was still 164,000 below the peak in December 2000 of 1.1 million jobs. Between this peak and the low point in January 2004, approximately 232,000 jobs were lost. Of this amount, only 67,700 (29%) have been added back, bringing the total number of jobs to 922,100.

In addition to the gains in the number of jobs, the local unemployment rate remains relatively low. The June 2007 unemployment rate for the San José area (unadjusted) was 4.8%, up slightly from 4.4% in May 2007 and the June 2006 level of 4.7%. The June 2007 unemployment rate was also slightly below the unadjusted figure for the State (5.2%) and very close to the results for the nation (4.7%). Staff will continue to carefully monitor employment levels for indicators of any economic slowdown from the modest growth levels assumed in this budget.

2007-2008 General Fund Revenue

As discussed above, continued modest economic growth is anticipated in 2007-2008. When analyzing the City’s General Fund revenues, however, it is important to remember that only approximately half of the categories are tied directly to the performance of the economy. The remaining areas, while impacted by overall economic performance, are driven by other factors. For instance, growth in the Utility Tax and Franchise Fee categories is typically more heavily impacted by rate changes than economic growth. Collections from local, State, and federal agencies are driven by the grant and reimbursement funding available. Because these revenue sources do not track directly with the performance of the economy, they can act as a buffer during an economic slowdown, easing the impact of a drop in the economically sensitive categories, or, even in times of economic strength, can hold down the City’s overall revenue growth.

Revised General Fund Forecast

After the issuance of the February Forecast, staff continued to review and update the base revenue estimates for 2007-2008. The base revenue estimates reflect the anticipated

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Overview (Cont'd.)

Revised General Fund Forecast (Cont'd.)

collection levels without any actions in the Adopted Budget. A number of the revenue estimates presented in the February Forecast were revised to reflect more recent information and were incorporated into a Revised General Fund Forecast, which served as the starting point in the development of the 2007-2008 Adopted Budget. The net result of these revisions was a slight downward adjustment (\$2.7 million) to the Forecast from \$830.7 million to \$828.1 million. These changes are summarized in the following chart:

2007-2008 Revised Forecast Changes

<u>Category</u>	<u>Adjustment</u>
Sales Tax	\$ (3,850,000)
Franchise Fees	1,177,000
Licenses and Permits	300,000
Rev. from Local Agencies	21,636
Departmental Charges	5,000
<u>Transfers & Reimbursements</u>	<u>(334,057)</u>
Total	\$ (2,680,421)

This reduction primarily reflected a revised estimate for the second largest revenue source – Sales Tax revenues. Key revisions included:

- The Sales Tax revenue estimate for 2007-2008 was revised downwards by \$3.85 million to reflect the combination of lower than anticipated actual collections in the second quarter of 2006-2007, lower growth assumptions for the remainder of 2006-2007, and lower growth assumptions for 2007-2008. When the 2008-2012 Forecast was developed, it was assumed that growth of 4% over the prior year would be realized in the second quarter of 2006-2007. Actual collections for this

quarter, however, were actually down slightly from prior year, with a decline of just under 1%. Given the declines in the first two quarters of this fiscal year, our projections for the remaining two quarters have been revised downwards. It is now assumed that no growth will be experienced in the remaining two quarters. The 2007-2008 Sales Tax growth rate has also been revised downwards from 4% to 3%.

- The Franchise Fees category was adjusted upwards by \$1.2 million to reflect higher than estimated Electric Franchise Fee collections in 2006-2007.
- The Licenses and Permits category was adjusted upwards by \$300,000 to reflect higher than projected Cardroom Business Tax collections.
- The Revenue from Local Agencies estimate was increased by \$21,636 to reflect updates to the estimates for reimbursements from the Redevelopment Agency.
- The Departmental Charges category estimate was increased \$5,000 to reflect updated Animal Services revenue estimates.
- The Transfers and Reimbursements category was decreased by \$334,000. The largest element of this adjustment was a downward revision of \$376,000 to the Rate of Return from the Water Utility Fund to reflect the cap on the total transfer to the General Fund of 8% of water sales per City Ordinance. The overhead estimates were increased by \$39,000 based on updated labor costs and overhead rates.

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Overview (Cont'd.)

Changes from Revised Forecast to Adopted Budget

From the Revised Forecast of \$828.1 million, additional resources totaling \$177.3 million were approved, resulting in an Adopted Budget revenue estimate total of \$1.0 billion. The components of the \$177.3 million increase can be broken down as follows: an increase in the estimate for the 2006-2007 Ending Fund Balance/2007-2008 Beginning Fund Balance (\$154.5 million); and higher revenue estimates (\$22.9 million). These changes are summarized by revenue category in the chart below.

2007-2008 Adopted Budget Changes

<u>Category</u>	<u>Adjustment</u>
Beginning Fund Balance	\$ 154,468,471
Transfers & Reimbursements	8,018,539
Revenue from the Fed. Govt.	6,142,948
Other Revenue	2,779,192
Licenses and Permits	2,359,084
Departmental Charges	1,982,568
Fines, Forfeitures & Penalties	1,117,000
Revenue from the State	483,892
Sales Tax	400,000
Revenue from Local Agencies	396,932
Utility Tax	(300,000)
Property Tax	(500,000)
Total	\$ 177,348,626

Following is a brief discussion of these changes.

- The \$154.5 million increase to the 2007-2008 Beginning Fund Balance estimate primarily reflects expenditure-related rebudgets from 2006-2007 to 2007-2008 (\$125.1 million), which are always brought to City Council at the end of the budget process. The higher fund balance also reflects an increase in expectations for excess revenue and expenditure savings in 2006-2007 (\$4.5 million); and the

liquidation of 2006-2007 reserves (\$24.8 million), including the 2007-2008 Future Deficit Reserve (\$10.6 million), the Salary and Benefits Reserve (\$6.5 million), the Development-Related Fee Reserves (\$3.4 million), the Enhanced Parks Maintenance Reserve (\$2.0 million), and the Technology Reserve (\$2.0 million).

- The Transfers and Reimbursement category was increased by \$8.0 million. The estimate for the Transfer from the Emergency Communication System Support Fee Fund increased by \$2.8 million to reflect revised estimates for costs associated with providing emergency dispatch services. This increase is based on an analysis of eligible costs with the existing fee and will not require a fee increase. A transfer of \$2.1 million from the Sewage Treatment Connection Fee Fund was approved to reflect the General Fund's share of proceeds from the sale of land to Pacific Gas and Electric Company as part of a legal settlement involving land at the Water Pollution Control Plant. Other approved transfers include \$465,000 from the Construction Excise Tax Fund as a budget balancing solution and \$386,000 from various funds for their portion of the \$2.0 million allocated to begin addressing the GASB 43/45 liability. This category also includes an increase of \$2.1 million for overhead adjustments related to the addition of various special-funded positions in the Adopted Budget (\$1.1 million) and to reflect the final Airport Fund overhead rate (\$1.0 million).
- The \$6.1 million increase in the Revenue for the Federal Government category reflects the rebudget of several grants (\$6.0 million) and the addition of new grant-related funds (\$145,000).

GENERAL FUND REVENUE ESTIMATES

Overview (Cont'd.)

Changes from Revised Forecast to Adopted Budget (Cont'd.)

- The Other Revenue category was increased by \$2.8 million to reflect the rebudget of revenue to support various projects (\$2.2 million) such as the Coyote Valley Specific Plan and EIR (\$2.0 million); increased Banking Services (\$230,000) and PG & E Energy Watch Program (\$184,000) reimbursements; increased revenue from accounts receivable efforts (\$150,000); and increased fee reimbursements (\$24,000).
- The Licenses and Permits (up \$2.4 million) and Departmental Charges (up \$2.0 million) categories were adjusted upward to reflect updated fees to remain at cost-recovery in the various fee programs and to reflect increased collection efforts by the Finance Department.
- The Fines and Forfeitures category was increased by \$1.1 million, primarily reflecting the upward adjustment associated with the Garden City Cardroom settlement (\$539,000) and an increase to the Parking Fines revenue estimate due to increased enforcement associated with new Parking and Traffic Control Officers (\$513,000).
- The Revenue from the State category was increased by \$484,000 to reflect new funding from the Waste Tire Enforcement Program (\$231,000); the rebudget of funding from the Office of Traffic Safety (\$209,000); and an increase of \$44,000 associated with the Early Care and Lifelong Learning Program Grant.
- The Sales Tax revenue estimate increased by \$400,000 to reflect the implementation

of the Revenue Collection Strategic Plan by the Finance Department that is expected to generate additional Sales Tax revenue.

- The increase of \$397,000 in the Revenue from Local Agencies category reflects increased reimbursement from the San José Redevelopment Agency (\$291,000), the rebudget of the Hazardous Materials Consent Judgment revenue (\$71,000), and reimbursement from the County associated with the Community Center Re-Use Plan (\$35,000).
- The Utility Tax category was decreased by \$300,000 to reflect slight downward adjustments in the Electricity and Telephone Utility categories.
- The Property Tax category was decreased by \$500,000 to reflect lower projected SB 813 Property Tax receipts.

In general, revenue estimates included in the Adopted Budget are intended to be as exact as possible. The level of certainty of any revenue projection made this far in advance of the actual collection period is, however, less than 100%. As a rule, therefore, where great uncertainty exists concerning a particular revenue source, a degree of safety has been built into the estimate. As always, the 2007-2008 revenue estimates will need to be monitored closely throughout the year.

Following is a discussion by revenue category of the anticipated performance for 2007-2008, including a description of any changes to the revenue estimates as part of the Adopted Budget. See the *General Fund Revenue Descriptions* at the end of this section for a description of General Fund revenue sources.

GENERAL FUND REVENUE ESTIMATES

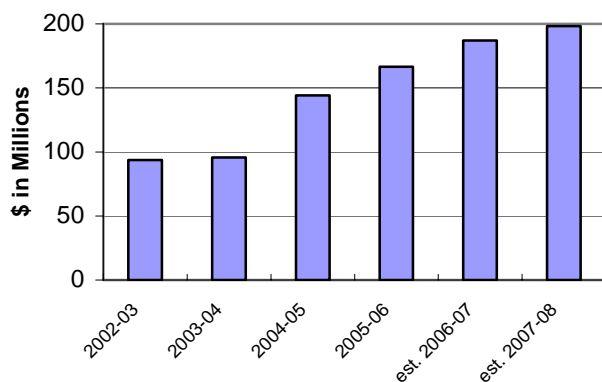
PROPERTY TAX

2005-2006 Actual	\$166,559,696
2006-2007 Adopted	\$183,914,000
2007-2008 Forecast	\$198,654,000
2007-2008 Adopted	\$198,154,000
% of General Fund	19.7%
% Change from 2006-2007 Adopted	7.7%

Major Categories:

- Current Secured Property Tax
- Current and Prior Unsecured Property Tax
- Current SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale)
- Homeowner's Property Tax Relief Exemption

Collection Trend:



Note: the large increase in 2004-2005 reflects the permanent conversion of Motor Vehicle In-Lieu fees to Property Taxes.

Revenue Estimates:

Property Tax receipts of \$187.0 million are projected for 2006-2007, which represents growth of 12.3% over the prior year. This

strong growth reflects increases in both the Secured and Unsecured categories, offset by decreases in the SB 813 (property resales) collection areas. In 2007-2008, the overall rate of growth is expected to slow considerably to 6.0% to a total collection level of \$198.2 million. Additional information about each of the Property Tax subcategories is provided below.

Secured Property Tax

Secured Property Taxes account for approximately 90% of the revenues in this category. In recent years, growth in this area has been surprisingly strong, driven by a high volume of property turnovers and significant increases in home prices. With the slowdown in the housing market, the high level of Secured Property Tax growth is not expected to continue.

In 2007-2008, Secured Property Tax growth will be driven by growth in the property tax roll, which will be based on real estate activity in calendar year 2006. Performance in 2006, while still relatively strong, started to slow down with a reduction in the number of property transfers and a leveling off of home prices. Secured Property Tax roll growth of 7.5% is projected for 2007-2008 based on preliminary information from the County of Santa Clara. This would bring Secured Property Tax receipts to \$181.4 million.

GENERAL FUND REVENUE ESTIMATES

Property Tax (Cont'd.)

Unsecured Property Tax

The second largest revenue source in this category is Current and Prior Unsecured Property Taxes. Growth in this category is driven primarily by increases in the value of personal property (e.g. equipment and machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been extremely volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Collections have been going down in recent years as a result of economic conditions in the region. For the first time in several years, slight growth of 2.2% is projected for 2006-2007 and would bring receipts to \$10.7 million. This collection level is also projected for 2007-2008.

It should be noted, however, that this estimate assumes that the County Assessor will not be taking any preemptory actions to change the depreciation schedules used to value major business equipment items. Due to the volatility in collections for the past several

years, this revenue source will require continued close monitoring in 2007-2008.

SB 813 Property Tax (Property Resales)

SB 813 Property Taxes (supplemental taxes) represent payments for taxes owed on recent housing resales. With the significant drop in the number of housing resales, collections are expected to fall from the extremely high level of \$10.1 million in 2005-2006 to \$6.5 million in 2006-2007. Collections are projected to fall an additional 23% to \$5.0 million in 2007-2008 based on the assumption that the housing market will continue to experience declines through 2007-2008. This \$5.0 million estimate for 2007-2008 reflects a decline of \$500,000 from the Revised Forecast based on current collection trends and the unfavorable housing market conditions.

Homeowner's Exemption

The Homeowner's Property Tax Relief Exemption subvention represents recovery of the tax loss resulting from the per-household exemption granted by current State law. Collections of \$1.1 million are anticipated in 2006-2007. Revenues in this category are expected to remain flat in 2007-2008.

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SALES TAX

2005-2006 Actual	\$140,327,107
2006-2007 Adopted	\$144,008,000
2007-2008 Forecast	\$152,236,000
2007-2008 Adopted	\$152,636,000
% of General Fund	15.2%
% Change from 2006-2007 Adopted	6.0%

* Revised downward by \$3.85 million from the February Forecast, reflecting lower than anticipated collections in 2006-2007 and lower growth assumptions.

Major Categories:

- General Sales Tax
- Public Safety (Proposition 172) Sales Tax

Distribution of Sales Tax:

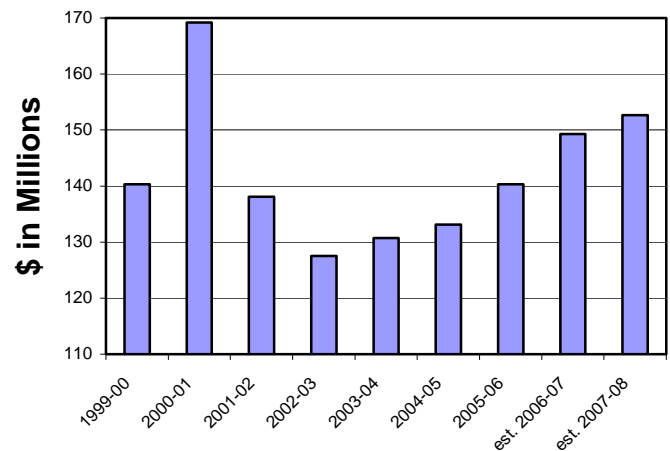
As shown below, the City receives 1.0% of the 8.25% Sales Tax collected for items sold in San José. In addition, the City receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected statewide.

<u>Agency</u>	<u>Distribution Percentage</u>
State of California	5.50%
City of San José	1.00%
Santa Clara County	0.75%
Santa Clara County Transit District	0.50%
Public Safety Fund (Proposition 172)	0.50%
Total Sales Tax Rate	8.25%

Starting in 2004-2005, the City was impacted by the State action known as the “Triple Flip”, which affects the timing of actual sales tax receipts. As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), 0.25% of the City’s one percent Bradley-Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax

revenue (Primarily ERAF). This action, which went into effect on July 1, 2004, is to last only for the life of the bonds (currently estimated at five to ten years). The City will, however, continue to record the replacement property tax revenues as sales tax receipts because the growth formula for these receipts is tied to sales tax and because this action is considered a temporary property tax in lieu of sales tax.

Collection Trend:



Revenue Estimates:

Overall, collections are expected to increase 6.4% in 2006-2007 to \$149.3 million and increase an additional 2.2% in 2007-2008 to \$152.6 million.

GENERAL FUND REVENUE ESTIMATES

Sales Tax (Cont'd.)

General Sales Tax

As a starting point, the 2007-2008 General Sales Tax revenue estimate assumes collections of \$144.7 million in 2006-2007, an increase of approximately 6.4% over the actual 2005-2006 collection level of \$136.0 million. All of this growth, however, is the result of timing differences in payments and is not related to actual sales tax performance expected in 2006-2007. Almost 80% of the growth expected in 2006-2007 is due to a significantly higher State “triple flip” payment when compared to 2005-2006 as a result of timing differences in the payment schedule. The remaining growth from the prior year is related to additional revenue from 2005-2006 that had been under-accrued at the end of last fiscal year.

When analyzing the underlying Sales Tax performance, adjusted for one-time items above, collections are now expected to end the year at approximately the same level as 2005-2006. In December, the City received data on Sales Tax performance for the first quarter of 2006-2007 that reflected a decline of approximately 9%. This decrease, however, was the result of a large one-time downward correction that the City had been anticipating. Excluding that correction, collections were actually flat for the first quarter. In the second quarter, collections also remained close to the prior year level, with a decline of less than 1%. The lack of growth in the first two quarters of 2006-2007 is a departure from the recent performance in this category. Prior to these quarters, there had been 11 consecutive quarters of Sales Tax growth. The lack of Sales Tax growth in recent quarters was primarily the result of declines in the Business-to-Business category. For the remaining two quarters of 2006-2007, it is now anticipated that no growth will occur. This is a reduction from the 2%

growth assumption for these quarters built into the Five-Year Forecast.

For 2007-2008, General Sales Tax receipts are expected to reach \$147.9 million, an increase of 2.2% over the revised 2006-2007 estimated collection level. The increase in 2007-2008 reflects an underlying growth rate of 3% for each quarter, plus the estimated payment from the State for the “triple flip”. The 3% growth rate assumes moderate consumer spending that may be somewhat impacted by the softening housing market. This growth rate was reduced from the 4% used in the 2008-2012 Five-Year Forecast based on recent collection trends. The General Sales Tax figure also includes a \$400,000 upward adjustment as part of the Adopted Budget to reflect the implementation of the Revenue Collection Strategic Plan by the Finance Department that is expected to generate additional Sales Tax revenue.

The volatility in the City’s collection experience for the past several years makes forecasting the General Sales Tax category a challenging task. Consistent with past years, therefore, Sales Tax Collections will be carefully monitored during the year and the status reported to the City Council through the Monthly Financial Report.

Public Safety (Proposition 172) Sales Tax

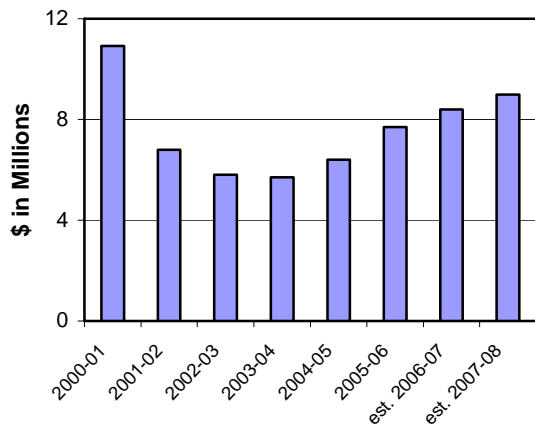
The Public Safety (Proposition 172) Sales Tax is a ½-cent sales tax collected by the State and distributed to counties and cities. Collections are based on the actual State-wide sales tax receipts and the relative sales tax performance of Santa Clara County to the State. Proposition 172 Sales Tax collections are expected to total \$4.6 million in 2006-2007, which represents growth of 7.1% from the actual 2005-2006 collections. A portion of this growth, however, is the result of the timing of payments. In 2007-2008, growth of 3% is projected and results in an estimated collection level of \$4.7 million.

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TRANSIENT OCCUPANCY TAX

2005-2006 Actual	\$7,688,090
2006-2007 Adopted	\$7,600,000
2007-2008 Forecast	\$8,988,000
2007-2008 Adopted	\$8,988,000
% of General Fund	0.9%
% Change from 2006-2007 Adopted	18.3%

Collection Trend:



Revenue Estimates:

Transient Occupancy Tax receipts for 2006-2007 were estimated at \$8.4 million, reflecting growth of 9.3% from the 2005-2006 collection level. In 2007-2008, a slightly reduced level of growth of 7.0% from the 2006-2007 estimate is anticipated, reflecting an expectation of continued strength in this area.

Growth in this category had been extremely strong in the mid and late 1990s through 2000-2001. In 2001-2002, however, collections started to fall as a result the general deterioration in economic conditions along

with the aftermath of September 11. The downward slide included a 37.6% decline in 2001-2002, followed by a 14.9% decline in 2002-2003 and a 1.5% decline in 2003-2004. This fall-off was a significant departure from the experience of the late 1990s. With the exception of a moderate increase of slightly over 4.0% in 1998-1999, annual growth in this category ranged from 13.0% to 21.0% from 1993-1994 through 2000-2001.

In 2004-2005, this category started to experience growth again, with an increase of 12.8% over 2003-2004 levels. This growth trend has continued with growth of 20.0% in 2005-2006 and with a projected increase of over 9.0% in 2006-2007.

The number of available hotel rooms is expected to remain relatively unchanged next year, with slight increases in room rates. In addition, the increase in occupancy rates that has driven most of the recent increases in Transient Occupancy Tax collections is expected to start leveling off as economic growth remains modest. Based on the above, the 2007-2008 Adopted Budget assumes a 7.0% growth over the estimated 2006-2007 receipts.

GENERAL FUND REVENUE ESTIMATES

FRANCHISE FEES

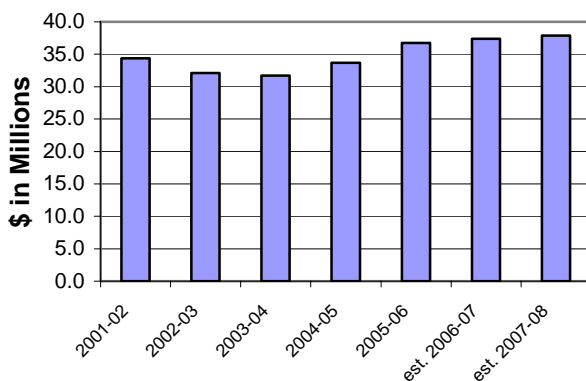
2005-2006 Actual	\$36,759,856
2006-2007 Adopted	\$36,904,000
2007-2008 Forecast*	\$39,032,000
2007-2008 Adopted	\$39,032,000
% of General Fund	3.9%
% Change from 2006-2007 Adopted	5.8%

* Revised upwards by \$1.18 million from the February Forecast, reflecting higher than anticipated Electric Franchise Fee collections in 2006-2007.

Major Categories:

- Electricity, Gas, and Water Utility Services
- Commercial Solid Waste
- Cable Television
- City-Generated Towing
- Nitrogen Pipelines

Collection Trend:



Revenue Estimates:

Electricity, Gas, and Water Utility Services

The 2006-2007 Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based upon the proceeds of that company in the calendar year 2006. Collections are expected to total \$14.8 million in the Electric Franchise Fee category and \$5.5 million in the Gas Franchise Fee category

based on payment information received from PG&E.

The 2007-2008 Adopted Budget estimate for both the Electricity and Gas Franchise Fees is based upon an examination of utility tax rate changes, industry actions, collection patterns and their correlation to franchise fee receipts. The actual receipts will be based on activity in calendar year 2007.

For the Electricity Franchise Fee, modest growth of 2% is anticipated based on relatively stable rates for Electricity, bringing collections to an estimated \$15.1 million. The revised Forecast included a \$1.2 million upward adjustment to the Electric Franchise Fee category based on higher than anticipated collections in 2006-2007. In the Gas Franchise Fee area, collections are expected to total \$5.3 million, a slight decline of 3.6% from the estimated 2006-2007 collection level to bring this volatile category to more historical levels. Actual collections in the Gas Franchise Fee area are subject to significant fluctuations from the impact of weather conditions and/or rate changes.

Water Franchise Fees are expected to total \$224,000 in 2007-2008 based on 2006-2007 collection trends and a slight increase in water rates. As with the Gas Franchise Fees, collections in this area can vary based on the

GENERAL FUND REVENUE ESTIMATES

Franchise Fees (Cont'd.)

Electricity, Gas, and Water Utility Services (Cont'd.)

impact of weather conditions that may influence water usage.

Commercial Solid Waste

Commercial Solid Waste (CSW) Franchise Fee collections are anticipated to reach \$11.6 million in 2006-2007 and remain at that level for 2007-2008.

Cable Television

The 2007-2008 Adopted Budget estimate for Cable Television Franchise Fee revenue of \$5.5 million reflects a conservative growth estimate of 2% from the 2006-2007 estimated collection level.

City-Generated Towing and Nitrogen Pipelines

Consistent with 2006-2007 performance, City-Generated Towing Franchise Fee revenues are expected to total \$1.3 million in 2007-2008 and proceeds from Nitrogen Pipeline Franchise Fees are estimated to be \$58,000 in 2007-2008.

GENERAL FUND REVENUE ESTIMATES

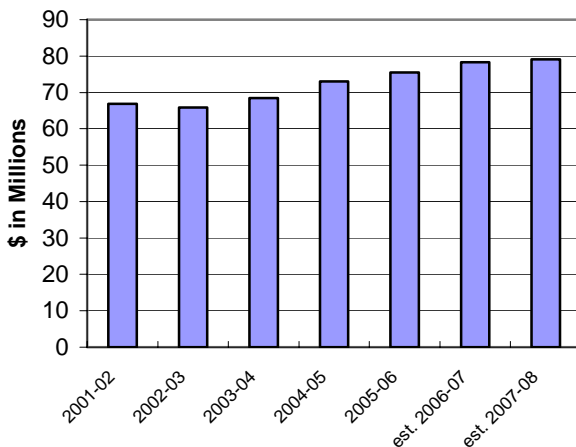
UTILITY TAX

2005-2006 Actual	\$75,488,559
2006-2007 Adopted	\$76,098,000
2007-2008 Forecast	\$79,441,000
2007-2008 Adopted	\$79,141,000
% of General Fund	7.9%
% Change from 2006-2007 Adopted	4.0%

Major Categories:

- Electricity Utility Tax
- Gas Utility Tax
- Water Utility Tax
- Telephone Utility Tax

Collection Trend:



Revenue Estimates:

Electricity Utility Tax

The 2006-2007 year-end estimate of \$36.3 million for Electricity Utility Taxes represents growth of 6.8% when compared to 2005-2006 actual collection levels. In 2007-2008, collections are estimated at \$37.0 million, reflecting anticipated growth of 2.0% over the 2006-2007 estimated collections based on the assumption that rate increases will be minimal

and consumption will experience slight growth.

Gas Utility Tax

It is anticipated that Gas Utility Taxes will total approximately \$9.7 million in both 2006-2007 and 2007-2008. This collection level is significantly below the \$11.0 million collected in 2005-2006 when the price of natural gas rose sharply due, in part, to the disastrous hurricane season. The Adopted Budget collection level reflects a more historical collection pattern for this volatile category.

Water Utility Tax

The 2007-2008 estimate for Water Utility Taxes of \$7.7 million assumes growth of approximately 5.0% over the estimated 2006-2007 collection level. This growth expectation reflects the impact of an anticipated increase in wholesale water rates and essentially flat consumption rates. It should be noted that this category is also subject to fluctuations based on weather conditions.

Telephone Utility Tax

In the Telephone Utility Tax category, collections in 2006-2007 are expected to reach \$24.5 million. In 2007-2008, minimal growth of approximately 1% is projected, bringing estimated collections to \$24.7 million.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

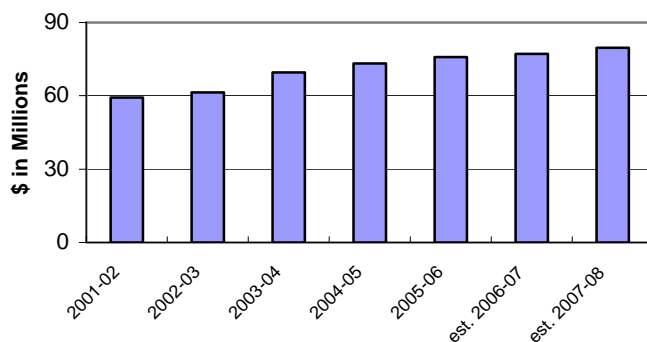
2005-2006 Actual	\$75,856,866
2006-2007 Adopted	\$74,660,399
2007-2008 Forecast*	\$77,360,320
2007-2008 Adopted	\$79,719,404
% of General Fund	7.9%
% Change from 2006-2007 Adopted	6.8%

* Increased by \$300,000 from the February Forecast to reflect a revised estimate for the Cardroom Revenue based on higher than anticipated 2006-2007 receipts.

Major Categories:

- Business Tax
- Cardroom Tax
- Disposal Facility Tax
- Fire Permits
- Building Permits
- Miscellaneous Other Licenses and Permits

Collection Trend:



Revenue Estimates:

Business Tax

In 2006-2007, General Business License Tax proceeds are expected to reach \$13.0 million, of which approximately \$1.3 million is attributable to the Business Tax Amnesty Program that was conducted at the beginning of 2006-2007. In 2007-2008, the base revenue estimate was reduced to \$12.3 million, based

on the assumption that a portion of the Amnesty Program revenue was one-time in nature. From the base level of \$12.3 million, an increase of \$305,000 was approved, bringing estimated collections to \$12.6 million. This adjustment reflects the increased revenue associated with the Finance Department's intent to enhance revenue collections through the implementation of its Revenue Collection Strategic Plan. This change in revenue will help support the addition of five positions in the Finance Department to implement this Strategic Plan.

Cardroom Tax

Cardroom Tax collections are experiencing significant growth and are anticipated to reach \$11.8 million in 2007-2008. This figure reflects an upward adjustment of \$300,000 as part of the revised Forecast based on higher than anticipated collections in 2006-2007. This estimate assumes that there will be no change in the operation of the cardrooms in 2007-2008.

Disposal Facility Tax

Disposal Facility Tax (DFT) revenue collections in 2006-2007 are expected to meet the budgeted estimate of \$14.7 million and increase by 2% in 2007-2008 to \$15.0 million.

GENERAL FUND REVENUE ESTIMATES

Licenses and Permits (Cont'd.)

Fire Permits

The 2007-2008 Adopted Budget revenue estimate of \$8.3 million represents 6.6% growth from the 2006-2007 Adopted Budget. The Fire Fee Program aligns projected revenues and costs to remain at 100% cost recovery.

This fee program includes both the development and non-development fee areas. To maintain cost-recovery in these areas for 2007-2008, a number of budget actions were approved in the Adopted Budget, including a fee increase of 5% in the development fees that is expected to generate \$229,500 and a 7.6% increase in the non-development fees that will generate an estimated \$235,000. On the expenditure side, the elimination of 1.0 Office Specialist II and the addition of one-time funding for inspector vehicles and updated code books were approved. Because the projected revenues with these adjustments are not sufficient to cover the projected costs, the use of \$110,066 from the Fire Fee Reserve was approved. These budget actions are also described in the Fire Prevention Core Service (Public Safety City Service Area) and the Fire Safety Code Compliance Core Service (Community and Economic Development City Service Area). A more detailed description of the changes to the various fees is provided in the 2007-2008 Fees and Charges document that is published under separate cover.

The Finance Department, as part of its Revenue Collection Strategic Plan, also anticipates collecting \$150,000 from prior year accounts receivable in the non-development fee program.

Building Permits

The 2007-2008 Adopted Budget revenue estimate of \$25.2 million represents an increase of 5.0% from the 2006-2007 year-end estimate and the 2007-2008 base budget level of \$24.0 million.

The Building Fee Program is also structured to be 100% cost-recovery. To maintain this cost-recovery status for 2007-2008, a number of budget actions were approved in the Adopted Budget, including a fee increase of 5% and the use of \$3.1 million from the Building Fee Reserve. These actions are intended to generate sufficient resources to support the existing costs as well as the additions approved to improve service delivery. Additional detail on these budget actions is provided in the Development Plan Review and Building Construction Inspection Core Service (Community and Economic Development City Service Area). A more detailed description of the changes to the various fees is provided in the 2007-2008 Fees and Charges document.

Miscellaneous Other Licenses and Permits

The 2007-2008 Adopted Budget includes \$6.8 million for a variety of other Licenses and Permits. This figure includes adjustments that total \$240,000 and represent: a \$123,000 increase from the base estimate in Multiple Housing Permit fee revenue, representing a 4.3% increase in fees to provide 100% cost recovery; a \$99,000 increase to the Police Department's Fees and Charges to maintain full cost recovery; and several other minor adjustments.

As discussed above, the 2007-2008 Fees and Charges document provides additional detail on the changes to individual fees.

GENERAL FUND REVENUE ESTIMATES

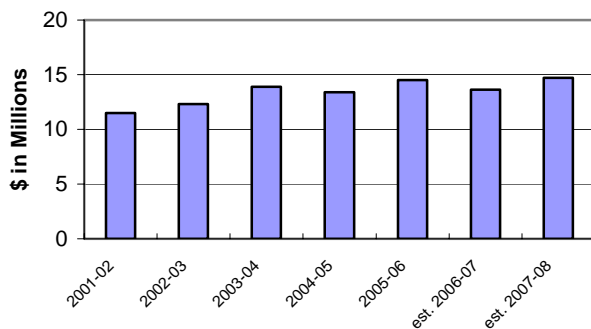
FINES, FORFEITURES, AND PENALTIES

2005-2006 Actual	\$14,497,307
2006-2007 Adopted	\$12,536,567
2007-2008 Forecast	\$13,590,600
2007-2008 Adopted	\$14,707,600
% of General Fund	1.5%
% Change from 2006-2007 Adopted	17.3%

Major Categories:

- Vehicle Code Fines
- Parking Fines
- Municipal Code Fines
- Business Tax and Cardroom Penalties
- Administrative Citation Program
- Other Fines and Penalties

Collection Trend:



Revenue Estimates:

For 2007-2008, collections in this category are expected to reach \$14.7 million, which is approximately \$1 million above the 2006-2007 year-end estimate. Following is a discussion of the major components of this category.

Vehicle Code and Municipal Court Fines

In 2007-2008, Vehicle Code Fines are estimated at \$2.7 million and Municipal Court

Fines are expected to reach \$1.0 million, consistent with current collection patterns. The Vehicle Code Fines figure reflects an \$80,000 decrease as part of the Adopted Budget due to the loss of revenue associated with the NASCOP Program, which was eliminated in this budget. This loss, however, may be partially mitigated by the deployment of three of the new Police Officers approved in the Adopted Budget to traffic enforcement efforts. This revenue category will be closely monitored to determine if upward adjustments are possible.

Parking Fines

In 2007-2008, Parking Fines are expected to generate \$8.2 million, which exceeds the 2006-2007 estimate and the 2005-2006 actual collection level of \$7.7 million. The 2007-2008 revenue projection for this category had originally been set at \$7.7 million, consistent with recent collection trends. However, as part of the 2007-2008 Adopted Budget, the revenue estimate was increased by \$513,000 to reflect the anticipated increase in citation issuance primarily associated with enforcement activities in non-school areas. These funds will be used to support 2.0 Parking and Traffic Compliance Officers and non-personal/equipment.

GENERAL FUND REVENUE ESTIMATES

Fines, Forfeitures, and Penalties (Cont'd.)

Business Tax and Cardroom Penalties

Business Tax penalties are projected at \$900,000 for 2007-2008, which is consistent with historical collection patterns. This figure assumes that there will be no Business Tax Amnesty Program in 2007-2008.

The 2007-2008 Adopted Budget includes the addition of \$539,000 from the outstanding Garden City fine. Beginning in April 2007, additional monthly payments will be received over a 28-month period to complete the fine payment that has been outstanding for several years due to bankruptcy proceedings.

Administrative Citation Program

In 2007-2008, the base revenue estimates for the Administrative Citation Program are approximately \$750,000 in fines and an additional \$125,000 in penalties, for a total of \$875,000. These estimates are consistent with the 2006-2007 year-end estimates and the historical collection pattern for this revenue.

From the base revenue level, an upward adjustment of \$145,000 was approved for this category, bringing collections to \$1.0 million. As part of its Revenue Collection Strategic Plan, the Finance Department anticipates collecting \$145,000 from prior year accounts receivable in the Administrative Citation program.

Other Fines and Penalties

In 2007-2008, Other Fines and Penalties are expected to generate \$309,000 from a variety of sources, which is consistent with the 2006-2007 year-end estimate.

GENERAL FUND REVENUE ESTIMATES

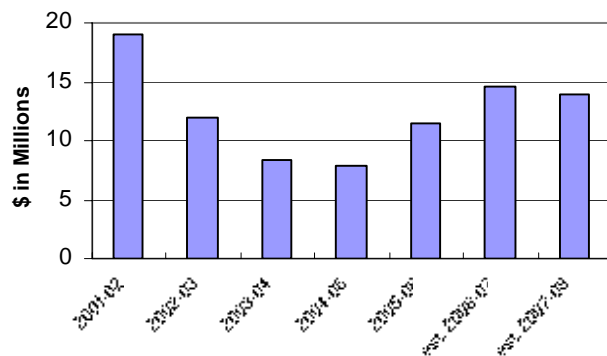
REVENUE FROM USE OF MONEY AND PROPERTY

2005-2006 Actual	\$11,553,296
2006-2007 Adopted	\$10,541,869
2007-2008 Forecast	\$13,909,080
2007-2008 Adopted	\$13,909,080
% of General Fund	1.4%
% Change from 2006-2007 Adopted	31.9%

Major Categories:

- General Fund Interest Earnings
- Special Funds Interest Earnings
- Miscellaneous Collections

Collection Trend:



Revenue Estimates:

The largest source of revenue in this category is earnings on investments of General Fund and several other funds' cash.

General Fund Interest Earnings

To estimate the General Fund interest earnings, projections on investment rates and cash balances were completed. Based upon a review of the Monthly Investment Report data and reinvestment rates, a 2007-2008 average interest yield of 4.4% is assumed. This interest rate was applied to an estimated average cash balance of \$210.0 million to

develop the interest earnings projection of \$9.2 million. This amount is well above the 2006-2007 Adopted Budget estimate of \$6.7 million, but down from the 2001-2002 peak year collection level of \$11.9 million. The higher collections projected for 2007-2008 reflect a projected increase in interest rate earnings, based on a presumption regarding the continuation of Federal Reserve Board policies that have pushed up interest rates, applied to a higher average cash balance assumption (\$210.0 million versus \$190.0 million assumed in 2006-2007).

Special Funds Interest Earnings

The interest income estimate from Special and Capital Funds in 2007-2008, totaling approximately \$3.8 million, is projected to be substantially higher than the 2006-2007 Adopted Budget estimate of \$2.8 million, but comparable to the 2006-2007 year-end estimate. Though no overall growth over the estimated 2006-2007 year-end collections is anticipated, adjustments to the individual estimates were made to reflect the activity anticipated in 2007-2008.

Miscellaneous Collections

Based on 2006-2007 projections, it is anticipated that approximately \$900,000 will be generated in 2007-2008 from Property Tax interest, Subrogation Recovery, property rentals, and interest on various executive loans.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM LOCAL AGENCIES

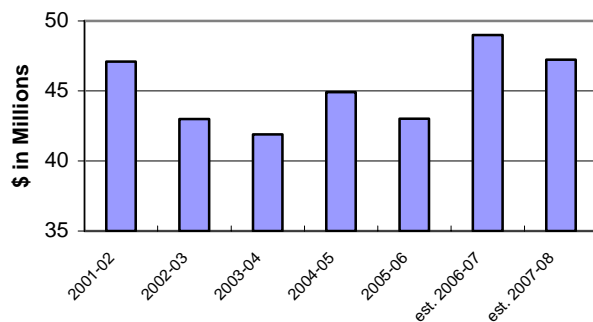
2005-2006 Actual	\$43,013,583
2006-2007 Adopted	\$45,422,621
2007-2008 Forecast*	\$46,846,131
2007-2008 Adopted	\$47,243,063
% of General Fund	4.7%
% Change from 2006-2007 Adopted	4.0%

* Increased by \$21,636 from the February Forecast to reflect updated estimates for reimbursements from the Redevelopment Agency.

Major Categories:

- Reimbursement from the San José Redevelopment Agency (Agency) for City Staff/Overhead
- Agency Payment for Convention Center Debt Service and City Capital Expenditures
- Enterprise Fund In-Lieu Charges
- Central Fire District Payments
- Paramedic Program Payments
- Other Miscellaneous Payments

Collection Trend:



Revenue Estimates:

San José Redevelopment Agency

The San José Redevelopment Agency reimbursements included in the February Forecast Budget (\$15.3 million) were based

upon estimated 2007-2008 costs for Agency staff and the current complement of City support services provided to the Agency. This base figure was adjusted upward by approximately \$22,000 to reflect updated estimates for these reimbursements.

As part of the Adopted Budget, the revenue from the Agency is expected to increase by \$291,000 to a total reimbursement level of \$15.6 million. The following adjustments were approved:

- Increase of \$200,000 to support audit services from the City Auditor's Office.
- Increase of \$111,957 to support an additional Contract Compliance Specialist position in the Public Works Department Office of Equality Assurance for Redevelopment Agency projects.
- Increase of \$75,000 matched by the same amount of City dollars to achieve the \$150,000 considered necessary to support a review and revision of the Sign Ordinance.
- Decrease of \$89,452 to reflect lower reimbursements for the Mayor and City Council (\$41,291) and the City Attorney's Office (\$48,161) to reflect budget reductions in these areas.

GENERAL FUND REVENUE ESTIMATES

Revenue From Local Agencies (Cont'd.)

Redevelopment Agency (Cont'd.)

- Decrease of \$6,573 to reflect the lower funding for the community-based organizations in the Office of Economic Development.

Also included is the continuation of Redevelopment Agency reimbursement for the Convention Center Lease payment of \$14.0 million, which reflects a pre-determined debt payment schedule amount, and reimbursement for City capital expenditures, which enables the City to fund the San José BEST Program, presumed to be continued at \$3.0 million. The San José BEST Program provides funding for schools, community-based organizations, and other programs aimed at deterring gang and drug activities and providing employment opportunities for youth. This \$3.0 million figure may be adjusted during 2007-2008 to reflect an increase of \$1.0 million that was incorporated into the Redevelopment Agency's budget.

Enterprise Fund In-Lieu Charges

The proposed estimate for Revenue from Local Agencies assumes total Enterprise Fund In-Lieu Charges of \$4.3 million. These payments are received from the Municipal Water System and Water Pollution Control Plant enterprise funds in lieu of franchise fees and other various taxes and fees, which the City would have received if these entities were privately owned.

Central Fire District and Paramedic Program Payments

Property taxes fund the Central Fire District activities, and those payments for the County areas covered by the San Jose Fire Department are passed on to the City. For

2006-2007, Central Fire District payments are expected to end the year at \$6.2 million. In 2007-2008, growth of 5% is projected, bringing total estimated collections to \$6.5 million. This growth rate, which is below the Secured Property Tax growth rate, factors in the potential impact of annexations.

In 2007-2008, payments from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) are assumed at \$1.7 million as receipts are based on the annual adjustments approved by the contract with the County.

Other Miscellaneous Payments

A number of other revenue sources are included in this category, such as the Adult Day Care and Senior Nutrition Programs. For 2007-2008, the base level of revenue was generally set at approximately the 2006-2007 estimated level.

This category also includes the rebudget of the Hazardous Materials Consent Judgment revenue (\$71,000).

GENERAL FUND REVENUE ESTIMATES

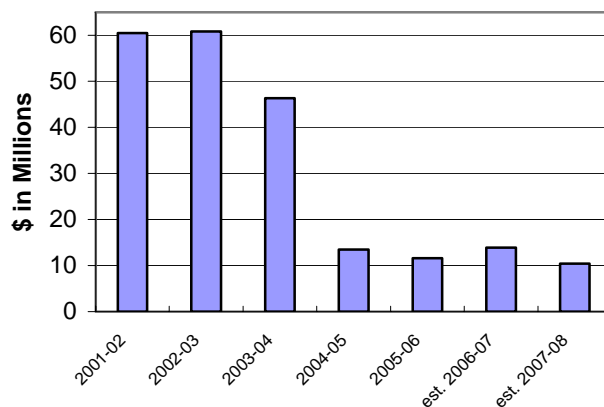
REVENUE FROM THE STATE OF CALIFORNIA

2005-2006 Actual	\$11,570,554
2006-2007 Adopted	\$10,274,423
2007-2008 Forecast	\$9,945,309
2007-2008 Adopted	\$10,429,201
% of General Fund	1.0%
% Change from 2006-2007 Adopted	1.5%

Major Categories:

- Motor Vehicle and Airplane In-Lieu Taxes
- State Grants

Collection Trend:



Note: the large decrease in 2004-2005 reflects the permanent conversion of Motor Vehicle In-Lieu fees to Property Taxes.

Revenue Estimates:

Motor Vehicle and Airplane In-Lieu Taxes

In 2006-2007 Motor Vehicle In-Lieu collections are expected to reach \$6.3 million based on collection trends and adjustments for prior year payments. In 2007-2008, slight

growth of 1.4% is projected, bringing estimated revenues to \$6.4 million.

Airplane In-Lieu collections are expected to reach \$1.5 million in 2007-2008, which is slightly below the collections in the past two years, but is consistent with historical collection patterns for this category.

State Grants

Public Library Fund (PLF) SB 358 grant funds are estimated to total \$550,000 in 2007-2008, reflecting the anticipated level of funding from the State. This figure is consistent with the actual 2006-2007 collection levels.

Abandoned Vehicle fee revenue of \$710,000 is anticipated in 2007-2008, reflecting no growth from the current year-end estimate. Also, included in this Adopted Budget is anticipated revenue of \$370,000 for Auto Theft Reimbursement, \$287,000 for Highway Maintenance Charges, and \$130,000 for the Senior Companion Program.

The Adopted Budget also includes new funding to support the Waste Tire Enforcement Program (\$231,000); the rebudget of grant funding from the Office of Traffic Safety (\$209,000); and additional funding associated with the Early Care and Lifelong Learning Program Grant (\$44,000).

GENERAL FUND REVENUE ESTIMATES

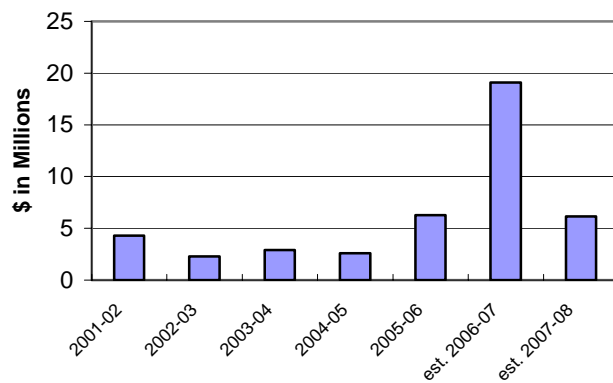
REVENUE FROM THE FEDERAL GOVERNMENT

2005-2006 Actual	\$6,263,332
2006-2007 Adopted	\$16,469,051
2007-2008 Forecast	\$0
2007-2008 Adopted	\$6,142,948
% of General Fund	0.6%
% Change from 2006-2007 Adopted	(62.7%)

Major Categories:

- Police-Related Federal Grants
- Other Federal Grants

Collection Trend:



Revenue Estimates:

The revenue in this category is received from various grant programs. The 2007-2008 Adopted Budget only includes those grant proceeds known to be obligated for next year.

The following grants were rebudgeted from 2006-2007 to 2007-2008: COPS 2003-2004 Interoperable Communications (\$3.7 million); 2006 Super UASI-OES (\$1.0 million); 2005 Urban Area Security Initiative (UASI) (\$447,944); Metropolitan Medical Response System Grant (\$232,330); Internet Crimes

Against Children (\$220,000); Emergency Management Performance Grant (\$129,292); Juvenile Justice and Delinquency Prevention Grant (\$103,597); 2005-2008 Human Trafficking Prevention Grant (\$85,000); Smart Start Neighborhood Centers (\$39,775); Weed and Seed – East San José (Seeding) (\$36,692); and 2006 Super UASI – Police (\$11,197).

The 2007-2008 Adopted Budget also recognizes new grant funding for the following: Human Trafficking Prevention Grant (\$75,000); the Super UASI Management Team-Police (\$38,813); the South Bay Human Trafficking Task Force (\$15,573); and the Silicon Valley Computer Forensic Lab (\$15,573).

GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

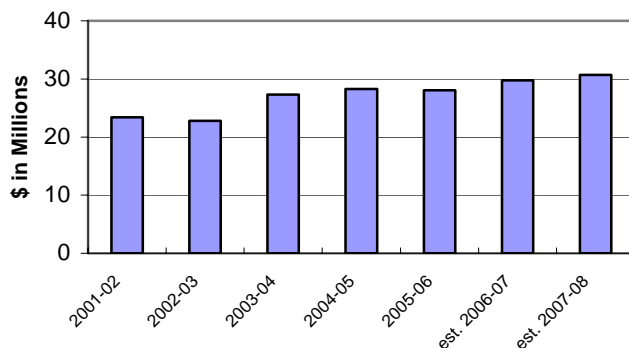
2005-2006 Actual	\$28,060,683
2006-2007 Adopted	\$29,455,625
2007-2008 Forecast*	\$28,732,050
2007-2008 Adopted	\$30,714,618
% of General Fund	3.1%
% Change from 2006-2007 Adopted	4.3%

* Increased by \$5,000 from the February Forecast to reflect changes in Animal Services revenue.

Major Categories:

- Police Fees
- Public Works Fees
- Transportation Fees
- Library Fees
- Planning Fees
- Parks, Recreation and Neighborhood Services Fees
- Miscellaneous Departmental Fees

Collection Trend:



Revenue Estimates:

Contained in this revenue category are the various fees and charges levied to recover costs of services provided by several City departments. In the 2007-2008 Adopted Budget, estimated Departmental Charges of \$30.7 million are up 4.3% from the 2006-2007

Adopted Budget level, and 6.9% higher (\$2.0 million) than the Revised Forecast level.

The increase in the Adopted Budget in this category is mainly the result of adjustments to various fee programs, including increases to various fees to recover the projected costs and to address service level demands in 2007-2008.

This section highlights the major fee programs in this category. A more detailed description of the changes to the various fee programs is provided in the separate 2007-2008 Fees and Charges document.

Police Fees

The Adopted Budget revenue estimate for the Police Department (\$1.6 million) represents a 9.9% (\$142,000) increase from the Forecast level and an 8.7% increase from the 2006-2007 Adopted Budget. This positive variance results from fee revisions throughout the fee program.

Public Works Fees

In 2007-2008, Public Works fees are expected to generate \$8.7 million, which is \$779,000 (9.9%) higher than the 2007-2008 Forecast and the 2006-2007 Adopted Budget level.

GENERAL FUND REVENUE ESTIMATES

Departmental Charges (Cont'd.)

Public Works Fees (Cont'd.)

Like other development programs, the Public Works Fee Program is structured to be 100% cost-recovery. To maintain this cost-recovery status for 2007-2008, a number of budget actions were approved in the Adopted Budget, including fee increases of 8.9% for the development fees and 14.0% for fees charged to utility companies. The use of \$240,000 from the Public Works Fee Reserve was also approved, resulting in a projected remaining balance of \$752,000. These actions are expected to generate sufficient resources to support the existing costs as well as the additions to improve service delivery.

Additional detail on these budget actions is provided in the Regulate/Facilitate Private Development Core Service (Community and Economic Development City Service Area). A more detailed description of the changes to the various fees is provided in the 2007-2008 Fees and Charges document.

Transportation Fees

Transportation Departmental Charges are expected to generate approximately \$1.0 million in 2007-2008, which is generally consistent with the 2006-2007 year-end estimate. This collection level is approximately \$32,000 higher than the Forecast for Transportation fees. The anticipated increase reflects 2007-2008 fee changes that were approved to maintain cost-recovery levels.

Library Fees

Library Department fees and fines for 2007-2008 are estimated at \$1.3 million, which is relatively flat when compared to the expected 2006-2007 year-end level. There were no changes in Library fees for 2007-2008.

Planning Fees

The Planning, Building and Code Enforcement Department administers a variety of fees and charges related to the processing of planning permit applications.

In 2007-2008, Planning Fees are expected to generate \$6.3 million, which is \$464,000 (8.0%) higher than the 2007-2008 Forecast of \$5.8 million that was set based on current collection patterns for this fee category. Because receipts in this area have been tracking below expected levels, the 2007-2008 Forecast was adjusted downwards from the 2006-2007 Adopted Budget level of \$6.2 million.

To maintain a 100% cost recovery level for 2007-2008, a combination of fee increases averaging 8% and expenditure reductions of \$434,000 were approved. Additional detail on these budget actions is provided in the Development Plan Review and Building Construction Inspection Core Service (Community and Economic Development City Service Area). A more detailed description of the changes to the various fees is provided in the 2007-2008 Fees and Charges document.

Parks, Recreation and Neighborhood Services Fees

Parks, Recreation and Neighborhood Services Department (PRNS) fee collections are estimated at \$8.0 million in 2007-2008 based on current activity projections, revenue changes associated with PRNS departmental operations, and approved fee adjustments that conform to City Council direction to match revenues with program costs in order to maintain cost recovery. The 2007-2008 Forecast figure was revised upwards by \$5,000 to reflect an adjustment to the revenues

GENERAL FUND REVENUE ESTIMATES

Departmental Charges (Cont'd.)

Parks, Recreation and Neighborhood Services Fees (Cont'd.)

associated with Animal Services. The Adopted Budget figure of \$8.0 million incorporates increases of \$135,000 to reflect the revenues associated with new facilities and \$163,000 to reflect increased revenues associated with the restoration of the Aquatics Program at various school sites.

A more detailed description of the various fees assessed by the Parks, Recreation and Neighborhood Services Department is provided in the 2007-2008 Fees and Charges document.

Miscellaneous Departmental Fees

Collections of \$3.9 million are anticipated in 2007-2008 from a variety of miscellaneous fees and charges, including \$3.3 million from the Solid Waste Enforcement Fee (SWEF) Program. A \$269,000 increase in the SWEF was approved to bring expected revenues in line with anticipated costs (\$231,000) and to fund computer hardware/software replacements (\$17,500) and additional neighborhood clean-up overtime (\$20,000). Additional discussion related to these changes can be found in the Community Code Enforcement Core Service in the Neighborhood Services City Service Area.

GENERAL FUND REVENUE ESTIMATES

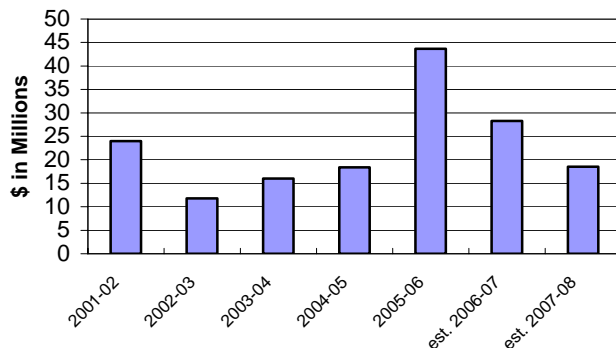
OTHER REVENUE

2005-2006 Actual	\$43,642,445
2006-2007 Adopted	\$15,522,457
2007-2008 Forecast	\$15,748,002
2007-2008 Adopted	\$18,527,194
% of General Fund	1.8%
% Change from 2006-2007 Adopted	19.4%

Major Categories:

- FMC Land Lease
- HP Pavilion at San José Revenues
- Investment Program Reimbursement
- Public, Educational, and Government (PEG) Access Facilities
- Sale of Property
- Sidewalk Repair Activities
- Other Miscellaneous Revenue

Collection Trend:



Revenue Estimates:

FMC Land Lease

In 2007-2008, FMC Land Lease revenue of \$5.5 million from the Airport is included in the Adopted Budget to reflect an amount sufficient to cover the debt service payments made from the General Fund for the portion

of the FMC property dedicated to Airport uses.

HP Pavilion at San José Revenues

The City receives payments from the Arena Management associated with the use of the HP Pavilion at San José. In 2007-2008, it is estimated that \$4.5 million will be received for parking, arena and suite rentals, and naming rights.

Investment Program Reimbursement

The 2007-2008 revenue estimate for this category is \$2.1 million based on the estimated costs of the Investment Program that will be reimbursed from proceeds on investment earnings.

PEG Access Facilities

The 2007-2008 Adopted Budget includes \$1.0 million to reflect the payment from Comcast required under the Franchise Agreement. As defined in the Franchise Agreement, these funds will be used for capital expenditures in support of PEG Access facilities. There is an associated City-Wide Expenses allocation for this purpose.

GENERAL FUND REVENUE ESTIMATES

Other Revenue (Cont'd.)

Sale of Property

The Adopted Budget includes revenue in the amount of \$100,000 to recover the costs associated with the management and sale of General Fund surplus property.

The Adopted Budget does not assume the sale of particular properties in 2007-2008. Per City Council policy, the proceeds from the sale of property, above the \$100,000 set aside to cover costs, are to be placed in the Reserve for Economic Uncertainty. Budget actions will be brought forward to carry out that direction, if necessary, in 2007-2008 based on the actual property sale proceeds received.

In 2007-2008, minor fee adjustments were approved for sale of street name signs, new subdivision traffic control signs, and new subdivision pavement markings, bringing the cost and revenue into alignment. These actions are expected to generate an additional \$24,000.

Sidewalk Repair Activities

When the City performs sidewalk repair services for non-owner occupied residences, the property owners reimburse the City for those costs. The 2007-2008 revenue estimate for this category is \$400,000.

Other Miscellaneous Revenue

The 2007-2008 Adopted Budget also includes revenue associated with Banking Services (\$1.1 million), FMC lease revenue from tenants on this property (\$175,000), parades and celebrations cost reimbursement (\$160,000), vehicle auction sales (\$133,000), Debt Program cost reimbursements (\$115,000), City Hall parking revenue (\$100,000), and several smaller revenue categories. The Banking Services estimate was increased by \$230,000 in the Adopted Budget based on updated activity estimates.

The Finance Department, as part of its Revenue Collection Strategic Plan, also anticipates collecting \$150,000 from prior year accounts receivable from other agencies. This revenue is reflected in this category. This increase has been incorporated in the 2007-2008 Adopted Budget.

In addition to revenues received on a recurring basis, this category includes revenues received for particular projects. In the 2007-2008 Adopted Budget, revenue from the following sources was rebudgeted to 2007-2008: Coyote Valley Specific Plan and EIR project (\$2.0 million), the Nike Animal Rescue Foundation (\$49,000), and the Public Art in Private Development (\$136,000). An additional \$184,000 associated with the PG & E Energy Watch Program was also recognized in the 2007-2008 Adopted Budget.

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

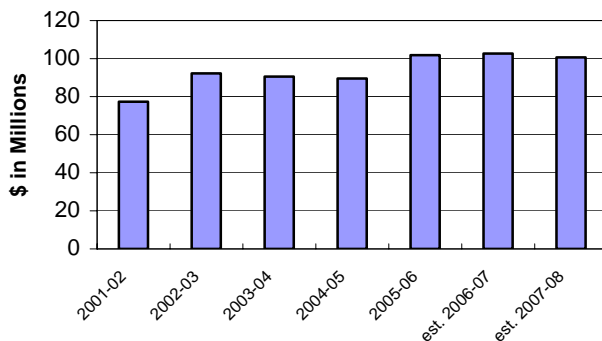
2005-2006 Actual	\$101,880,088
2006-2007 Adopted	\$96,008,271
2007-2008 Forecast*	\$92,586,228
2007-2008 Adopted	\$100,604,767
% of General Fund	10.0%
% Change from 2006-2007 Adopted	4.8%

* Decreased by \$334,057 from the February Forecast to reflect a decrease of \$375,826 in the Municipal Water Rate of Return, partially offset by upward adjustments to overhead allocations.

Major Categories:

- Overhead Reimbursements
- Transfers
- Reimbursements for Services

Collection Trend:



Revenue Estimates:

The Transfers and Reimbursements revenue category is used to account for funds received by the General Fund from other City funds through a combination of means, including overhead charges, reimbursements for services rendered, or as simple transfers.

In total, Transfers and Reimbursements are anticipated to generate approximately \$100.6 million in 2007-2008. This amount is slightly below the 2006-2007 Modified Budget level of \$102.8 million. Included in the 2007-2008

Forecast estimate is a net decrease of \$334,057 from the February Forecast reflecting a downward adjustment of \$375,826 to the Municipal Water Rate of Return to remain within the transfer amount allowable, partially offset by net upward adjustments to the overhead estimates as a result of changes in labor costs and updated grant overhead rates.

The following is a discussion of the three major subcategories, including detail regarding the net increase approved for 2007-2008.

Overhead Reimbursements

The 2007-2008 Adopted Budget includes \$33.1 million in overhead reimbursements from various special and capital funds. This amount reflects an increase of \$2.1 million from the revised Forecast estimate. Adjustments to overhead reimbursements are generated from various budget actions that change the staffing levels funded by special funds. Descriptions of the budget actions that generate these overhead reimbursement changes can be found in the various City Service Area sections of this document.

Following is a detailed description of the approved overhead reimbursement changes by fund.

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements (Cont'd.)

Overhead Reimbursements (Cont'd.)

- **Airport Operations Fund:** An increase of \$1.1 million to reflect the final overhead rate produced by the Finance Department (\$1,028,000) and to reflect the addition of staff for Terminal A+ operations (\$53,367), Airport Maintenance Management System implementation (\$7,548), and identification and liquidation of carryover encumbrances by Finance Department staff (\$10,257).
- **Convention and Cultural Affairs Fund:** An increase of \$16,262 to reflect the addition of a Senior Events Coordinator.
- **Community Development Block Grant (CDBG) Fund:** A decrease of \$8,556 to reflect the change in staffing for CDBG special planning projects.
- **General Purpose Parking Fund:** An increase of \$72,814 to reflect the addition of a Parking Operations Staff Specialist (\$30,571) and a Parking Operations Civil Engineer (\$42,243).
- **Integrated Waste Management (IWM) Fund:** An increase of \$308,467 to reflect the following staffing changes: Customer Contact Center (\$115,628); Finance and Information Technology staff for the Integrated Billing System (\$102,675); IWM administrative efficiencies (\$27,167); Los Plumas site maintenance (\$17,704); expanded street sweeping (\$17,686); Green Building support (\$15,848); and Finance staff to identify and liquidate encumbrances (\$11,759).
- **Low and Moderate Income Housing Fund:** An increase of \$41,337 to reflect the addition of staff for asset management (\$18,430), housing rehabilitation support

(\$18,430), and identification and liquidation of carryover encumbrances by Finance Department staff (\$4,477).

- **Public Works Program Support Fund:** A net increase of \$54,486 to reflect the addition of staff support for the Capital Program Management System (\$61,830), partially offset by a decrease of staff support for the Americans with Disabilities Act compliance (\$7,344).
- **San José/Santa Clara Treatment Plant Operating Fund:** An increase of \$275,694 to reflect the following staffing changes: Plant preventative maintenance program (\$102,000); Plant infrastructure management program (\$81,080); Plant expansion and reliability improvements (\$40,346); lab staffing (\$20,438); Plant Industrial Safety Program (\$19,839); Plant HVAC staffing (\$13,256); Finance Department identification and liquidation of encumbrances (\$1,873); and a Program Manager funding shift (reduction of \$3,138).
- **Sewer Service and Use Charge Fund:** An increase of \$46,775 to reflect the following staffing changes: Information Technology and Finance staff for the Integrated Billing System (\$30,659); and Green Building support (\$16,116).
- **Storm Sewer Operating Fund:** An increase of \$109,925 to reflect the following staffing changes: watershed enforcement (\$58,391); construction site inspectors (\$29,195); Information Technology and Finance staff for the Integrated Billing System (\$18,784); and Green Building support (\$14,397); and a reduction of traffic, pavement, and street landscape staffing (reduction of \$10,842).

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements (Cont'd.)

Overhead Reimbursements (Cont'd.)

- **Water Utility Fund:** An increase of \$83,068 to reflect the following staffing changes: Information Technology and Finance staff for the Integrated Billing System (\$40,865); Green Building support (\$21,404); and Customer Service Call Center support (\$20,799).

Transfers

In the 2007-2008 Adopted Budget, the revenue estimate from Transfers totals \$49.6 million. The largest transfers in this category are from the following funds: the Emergency Communication System Support Fee Fund (\$23.4 million); the Airport Maintenance and Operation Fund for Police and Fire services (\$15.6 million); the Construction Excise Tax Fund (\$3.0 million); the Construction and Conveyance Tax Fund (\$2.6 million); and the Sewage Treatment Connection Fee Fund (\$2.1 million).

The Adopted Budget incorporates the following changes totaling \$5.9 million:

- An increase of \$2.8 million to the transfer from the Emergency Communication System Support Fee Fund based on the analysis of revenue collections with the current fee and projected 2007-2008 costs. No increases to the Emergency Communication System Support Fees were proposed or approved in this budget.
 - A one-time transfer of \$2.1 million from the Sewage Treatment Connection Fee Fund to reflect a legal settlement with Pacific Gas & Electric for the sale of land at the Water Pollution Control Plant.
- An increase of \$465,000 to the transfer from the Construction Excise Tax Fund as a budget balancing strategy.
 - A new transfer of \$385,832 from various funds for their share of the \$2.0 million reserve that will be established for GASB 43/45 costs in the 2007-2008 Adopted Budget.
 - A transfer of \$250,000 from the Vehicle Maintenance and Operations Fund ending fund balance.
 - A decrease of \$83,068 to the transfer from the Water Utility Fund for adjustments to the Municipal Water Rate of Return, offsetting the overhead increase noted above. These actions have a net-zero impact on the Water Utility Fund.

Reimbursements for Services

Reimbursements for services represent the cost to the General Fund for staff and supplies provided on behalf of other City funds. For 2007-2008, the revenue estimate for this category is \$17.8 million.

The largest single source of revenue in this category is reimbursements from the Gas Tax Funds for the cost of City street-related expenses. In 2007-2008, collections from this source are projected at \$17.2 million, which is consistent with the 2006-2007 year-end estimate.

The two remaining items in this category are reimbursements from the Assessment District Funds and from the Deferred Compensation Fund. The estimates for these items are \$129,000 and \$496,000, respectively.

GENERAL FUND REVENUE ESTIMATES

BEGINNING FUND BALANCE

Unexpended/Rebudgeted Earmarked Reserves	\$103,217,319
Expenditure Rebudgets	46,741,828
Unexpended Contingency Reserve	26,000,000
Excess Revenue/Expenditure Savings	28,509,324
Liquidation of Prior Year Encumbrances	1,000,000
Fund Balance Subtotal:	\$205,468,471
Reserve for Encumbrances	26,362,154
Fund Balance Total:	\$231,830,625
% of General Fund	20.4%

Estimates for both the unrestricted and restricted (reserves for encumbrances) portions of the 2006-2007 Ending Fund Balance/2007-2008 Beginning Fund Balance, totaling \$231.8 million, are included as part of the 2007-2008 Adopted Operating Budget. The estimate for the encumbrance reserve is set at the 2005-2006 actual level (\$26,362,154). The Adopted Budget includes a matching expenditure amount intended to reflect the corresponding encumbrance appropriations that will be required.

The estimate for the unrestricted fund balance has been set at \$205.5 million, representing a \$154.5 million increase from the 2008-2012 Forecast level of \$51.0 million. When the Forecast was developed, the fund balance projection included \$24.0 million from additional revenue and expenditure savings generated in 2006-2007; an unexpended Contingency Reserve estimate of \$26.0 million; and \$1.0 million from liquidation of prior year carryover encumbrances.

Since the release of the Forecast, changes of \$154.5 million were approved to reflect the following:

- Approval to rebudget \$78.4 million of unexpended Earmarked Reserves and to use \$24.8 million of unexpended

Earmarked Reserves. The \$24.8 million use of reserves include the 2007-2008 Future Deficit Reserve to be used as part of the City's General Fund balancing strategy (\$10.6 million); the Salary and Benefits Reserve (\$6.5 million); portions of the Building, Fire, and Public Works Fee Reserves (\$3.4 million); the Enhanced Parks Maintenance Reserve (\$2.0 million); the Technology Reserve (\$2.0 million); the PRNS Re-Use/Northside Community Center Reserve (\$142,000); and the PRNS Re-Use Reserve (\$96,684).

- Expenditure rebudgets of \$46.7 million, the majority of which represent Capital and City-Wide projects that were not completed in 2006-2007; and
- An increase in the estimate for excess revenue and expenditure savings from 2006-2007 (\$4.5 million) based on an updated review of actual revenue and expenditure performance in 2006-2007. A portion of this increase will be generated from expenditure savings associated with the Energy Usage (\$250,000) and Displaced Employees Transition Funds (\$250,000) City-Wide Expenses allocations that will not be needed in 2006-2007.